THE REAL WALL STREET

AN UNDERSTANDABLE DESCRIPTION OF

A PURCHASE

A SALE

A "SHORT SALE"

With Forms, Definitions, Rules, &c.

BY

WILLIAM HARMAN BLACK

Of the New York Bar

Former Commissioner of Accounts of Greater New York
and Author of "New York & New
Jersey Corporations"

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SUBJECTS.

TO MY FATHER

THIS VOLUME IS INSCRIBED

PREFACE.

During eight years' special study in connection with my practice in New York City, I have been unable to find anything that gave a clear and comprehensive statement of stock transactions on the New York Stock Exchange. It has been no easy task to write one, first, because the information cannot be had from books; second, it is exceedingly difficult to compress it into a small volume; third, it is hard to decide what to omit. I have concluded to give the entire course of a stock transaction. If I have gone too much into detail, that is better than leaving out the very thing a particular reader might wish to know.

After a day spent in the Congressional Library at Washington, I can say that this is the first attempt to give the complete mechanism of a trade in stocks.

I intend to expand this volume in future, and when time permits to use it as the skeleton of a law book following the lines of my "New York & New Jersey Corporations," in which I will annotate the decisions as far as possible, to the particular stage of the trade they relate to. Although the present edition is the result of nearly a year of examination of the law and customs of the New York Stock Exchange, I am aware that it may contain inaccuracies which I will be glad to have the reader inform me of. I gratefully acknowledge my obligation to Mr. Elbert W. King for his most valuable technical suggestions, and also to Mr. H. N. Raymond for his assistance.

WILLIAM HARMAN BLACK.

New York, April 1st, 1908.

THE REAL WALL STREET

This little book is not written for men who know, but for those who do not know all about stock transactions.

As for every buyer there must be a seller, so for every seller there must be a buyer. Every transaction is therefore, at least as far as the New York Stock Exchange is concerned, both a purchase and a sale.

Buyers are called "long" of stocks, or "long" of the market. Those sellers who have stock to sell are simply "sellers." Those sellers who sell stock they do not own are "short sellers," or are "short" of stocks, or "short" of the market. In the following description I shall refer to the buyer as "Mr. Long," also to the seller who sells stock he owns as "Mr. Long," because "Mr. Long" continues to own them until he sells, and to the seller who sells stock *he does not own* at the time of sale as "Mr. Short."

The brokers for Mr. Long will be called Messrs. "Buy & Hold," and the brokers for Mr. "Short" will be called Messrs. "Sellshort & Co."

The name of the brokers who buy from Messrs. Buy & Hold are Messrs. "Buyshares & Co."

The brokers who lend stock I shall call Messrs. "Lender & Co."

Every step taken, every bookkeeping entry made, from the time Mr. Long buys or becomes "long" of a stock until he sells it; every stage of the sale of a stock that he owns; and everything done in the sale by Mr.

Short of a stock which he does not own until he "covers" (or buys a stock to deliver to the man from whom he borrowed to make the delivery under his "short-sale") will be set out in detail.

The history of each transaction will include its clearance through the Clearing House of the New York Stock Exchange.* A copy will be given of every entry, memorandum, or paper, given or taken, each in its logical order. As nearly as possible, purchases, sales, and short sales will be photographed and phonographed.

Of course, many exceptional things happen in the course of stock transactions; I give only the general custom and ordinary routine.

There will be issued later, description of a cotton transaction and of transactions on the Consolidated, Produce, and Coffee Exchanges, and transactions on "The Curb."

* Not the Clearing House of the Banks.

READING THE MARKET PAGE IN THE NEWSPAPERS.

Nothing, outside of newspapers, is so universally read as "the tape," by which is meant the paper ribbon upon which the "ticker" prints its continuous bulletins. The ticker is a marvelous electrical typewriter worked by impulse from the headquarters of the companies that rent them to their subscribers.

The following are some of the things that appear on a news bulletin tape in the course of a day:

"Good morning, Jan. 18, 1908, Testing, A B C, 123, A B C, 123, A B C, 123, London, 1 P. M., Consols have declined 1/16 to 83 11/16 for money and 83⅞ for account American Railway shares, with exception of St. Paul, which is down ½, show as a rule improvements over yestdys final N. Y. prices.—London, 2.15 P. M., Spl., American Railway Shares have been helped by favorable forecasts of to-day's New York Bank statement.—N. Y. Coffee Opening, Jan., 585.90, Feb., 590.95, Mch., 600.605.—Phila. Opening Stocks, Phila. Elec., 6 5/16, L. Valley, 60.—N. Y. in Stock market, Smelting had the unfavorable distinction of being the only stock to open lower; it started at a decline of ⅛ and in all dropped ¾. Gen. Elec. opened up 2. Del., Hud., 1.—Boston Opening Stocks, Ariz. Coml., 20. Butte Cltn., 20. Nor. Butte, 53. Greene, Can., 9.—N. Y. Curb Market opened strong, Stand. Oil, 485-490.—Chicago Board Trade Opening, Wheat, May, 104⅝ to 104½, Jly., 99⅛. —N. Y. Cotton Exge., at the opening this morning the Cotton Market was quiet and easier, there was no evidence of liquidation by leading Bulls.—N. Y. Stock Transactions, Degener and Burke, Simmons and Slade

and Talyor, Livingston bought Union Pacific. E. F. Hutton 1,000, Ball & Whicher and J. S. Bearns sold Union Pacific, Wassermann Bros., 2,500, E. F. Hutton, 1,500, and Seligman and Mayer, 1,500. C. B. McDonald, C. D. Barney, and Hallgarten Co. bought Smelters. I. and S. Wormser sold 4,000 smelters. E. Meyer, Jr., 1,000, and R. H. Bissell, 2,000. Bought Northern Pac. W. C. Van Antwerp sold 3,000.—N. Y. Commercial Bar Silver, 55½c., advance, ⅛c. Mexican Dollars, 44c.—N. Y., the Sub-Treasury was a debtor at the Clearing House this morning to extent of 1,664,219 dlrs.—Phila. Stocks, 10.50 A. M., U. G. I. offd., 79¾. Lehigh Navigation T. C., 88¾. Phila. Traction, 88½ B.—N. Y. Prod. Exge., the fact that an advance of ⅜ to ½ D. in Wheat at Liverpool to-day was attributed.—N. Y. Sterling Exchange, after opening practically unchanged, this morning resumed its upward course, with some violence during first hour.—Phila. Bank Clearings, 20,544,067, balances, 1,735,363.—Chicago, losses which will count up to nearly 1,000,000 dlrs. were sustained early to-day in a fire which destroyed. —Paris, private rate discount, 3¼ P. C. decline, ⅛. Exchange on London, 25 frs., 17½c. unchgd.—Earnings, Western Maryland, scnd. week Jan., '97, 791, inc. 1,046 from July 1st, 3,390,711, inc. 543,157.—Goodnight, Jan. 17, 1908, at 11.15 P. M."

The ticker that confines itself to the Stock Market and the official ticker of the Exchange is that of the New York Quotation Company. There are a number of others that give news of every sort, from freshets to prize fights, especially all sporting, base-ball and racing news.

Owing to the difference in time between the cities Americans know what the London and other foreign markets are doing before our own New York Exchange opens

at 10 A. M. This frequently exercises no small influence on our own "opening" prices. Transactions on the Exchange are reported with lightning rapidity, estimatedly within five seconds from the time of the transaction. The bulletins on the tape start with "Good-morning," then a few letters to test the working of the ticker. There follows the London price for American shares, the equivalent being compared with the New York closing price of the night before. In busy times the ticker is often five to ten minutes behind, and once it clicked out prices fifteen minutes after three o'clock, when 3,336,695 shares were sold. The official record of the prices for the day is the "pink sheet," which appears after the closing at three o'clock. It gets its name from the pink paper on which it is printed.

The daily papers print the "opening," the highest price during the day, the lowest, and the closing prices, and the most of them print the "net change." In the column to the left of the name of the stock under the word "sales" appears the number of shares sold that day, and at the bottom of the column the total sales for the day. Some of the papers give a comparison of the total sales with total sales of a year previous, with those a week previous, and those of the day before.

Following is *fac-simile* of part of the market report taken from a New York paper of March 13th, 1908:

"To-day's highest, lowest and closing prices, on actual sales, the number of shares sold, and the net changes from yesterday's closing prices or from last recorded sale, were as follows:

Sales.		High-est.	Low-est.	Clos-ing.	Net ch'g's.
58650	Amal. Copper	56¼	53¾	56¼	+2
200	Am. Can	5¼	4⅞	5	
100	Am. C. & F'y pr	88½	88½	88½	— ⅝

* * * *

+Increase. —Decrease. ‡Ex-dividend.

Total sales 662,254 shares, against 611,160 yesterday, 284,428 a week ago, and 1,722,450 a year ago."

It shows 58,650 shares of Amalgamated Copper sold. The opening price is not given, but it is seen that during the day it sold at 56¼, the "highest," that it dropped to 53¾, the "lowest," and that at the close of the day it had rallied to 56¼, the "closing." There appears a final gain of two points, which is indicated by a plus sign, thus, +2. This +2 "net change" is the difference between the closing price March 13th and the *closing price* of the *day before,* when the stock closed at 54. In other words, it is up two points from the price of the day before. It appears from above that 100 shares of Am. Car & Foundry, preferred, closed at 88½, and that there was a difference between this and the closing of the day before of ⅝ of a point. Consequently, there was a "net change" of —⅝ in this stock, the minus sign indicating a loss in price. If there is no change in the closing price to-day as compared with the closing price of the *day before,* nothing appears in the "net change" column, as in above case of 200 Am. Can. The comparison of sales with those of a week ago and a year ago at the end of the table is useful to determine the relative activity of the market.

In another column of the same paper appears the

"Closing quotations," in two columns, "Bid," and "Asked." A sample follows:

CLOSING QUOTATIONS FOR STOCKS.

	To-day.		Yesterday.	
	Bid.	Asked.	Bid.	Asked.
Amal'ed Copper............	56⅛	56¼	54⅛	54¼
Am. Car & Foundry........	29½	29¾	29	29¼
Am. Car & F'dry, pr........	87½	88½	87½	88⅞
Am. Hide & Leather........	2½	3	2¾	3

On page 8 are definitions of the terms in common use.

WALL STREET TERMS.

BEAR.—A believer in low prices—a seller—or "short seller." One who believes the market is going down.

BUCKET SHOP.—Place whose owner does not place orders, but who bets against his customer. Their interests are always antagonistic.

BULL.—The reverse of a bear.

BOARD ROOM.—The Stock Exchange Floor.

BULGE.—A quick, moderate advance.

"BUYING ON A SCALE."—Up or down would be, for example, buying at 30-32, 34 or buying 30, 28, 26, etc.

CALL.—A privilege of demanding stock according to its terms. Following is a call:

New York,..............190

For Value Received, the bearer may CALL ON ME on one day's notice except last day when notice is not required .... Shares of the...........Stock of the.....................
.................Company, at.....................
..............per cent. any time in.................
days from date

All dividends for which Transfer Books close during said time, go with the Stock.

Expires..................190

....

...........M.

Coalers.—Coal-carrying railroad lines.

Combination, or Spread.—Both a put and a call.

Consols.—The leading English security, paying 2¾ per cent. It is the bonded debt of Great Britain.

Coppers.—Copper stocks.

Corner.—A corner exists when one man or group of men acquires all the available stock of a concern, and Bears cannot buy or borrow the stock to deliver to make good their contracts. If sellers cannot deliver they must settle at such prices as their purchasers demand.

"Curb," The.—A group of brokers operating on Broad Street in the open air who deal in securities not dealt in on the New York Stock Exchange. They use signals like the deaf and dumb alphabet to communicate their trades to and from telephone operators who have places upstairs in view of The Curb on both sides of Broad Street.

Discretionary Pool.—Men agreeing that one of their number or some man selected shall manipulate their stock for the joint benefit.

E. E.—Errors excepted.

E. & O. E.—Errors and omissions excepted.

Flurry.—A sudden decline, or a sudden advance.

Gould Stocks.—M. O. P., Tex. Pac., Western Union, etc.

Grangers.—Railroads that traverse the grain-producing sections of the West, as C., B. & Q., C., M. & St. P., etc.

Industrials.—Companies engaged in producing or manufacturing, such as Am. Sugar, Am. Tob., Continental Tob., U. S. Steel, U. S. Leather, etc.

Insiders.—Those in a position to possess information which the public does not have.

Liquidating Market.—Market where there is a good deal of closing out of contracts.

Paper Profits.—Apparent profits on unclosed commitments.

Passing a Dividend.—Not paying it at regular time.

Point.—One per cent. advance or decline. The fractional parts of a point are ⅛, ¼, ⅜, ½, ⅝, ¾, ⅞.

Pool.—A combination of interests to accomplish certain results.

Put.—Reverse of a call. An agreement to take stock at an agreed price. Sample follows:

New York,..............190

For Value Received, the bearer may Deliver Me on one day's notice except last day when notice is not required .... Shares of the...........Stock of the.....................
.................Company, at.....................
.............per cent. any time in.................
days from date.

All dividends for which Transfer Books close during said time, go with the Stock.

Expires..................190

....

...........M.

Pyramiding or Parlaying.—Applying profits to increase one's holding.

Rally.—An upward spurt.

Reaction.—There is a reaction when stocks go down after being up.

Realizing.—Buying or selling to take profits made.

Scalping.—Professional traders getting in or out frequently and making small profits.

Short Interest.—Traders who have sold short.

Specialist.—Dealer in one or more particular stocks.

Stocks are preferred or common. And there may be first preferred, second preferred, etc. The difference between preferred stock and common stock is that preferred has priority in payment of dividends. The first dividends earned are applied to the preferred. If any dividend over them has been earned it may be applied to the common. Cumulative dividends are those which, if not paid, accumulate from dividend period to dividend period. If dividends are not earned in one dividend period they remain a charge in favor of cumulative dividend stocks and when the money is earned all such accumulations must be paid in full before there is any payment on the common stock.

The par value of most stocks is 100 dollars per share, but there are half stocks, the par value of which is fifty dollars per share, like Reading or Pennsylvania.

Stocks are either assessable or non-assessable. Holders of partly paid stock are liable for the difference between what they have paid in and the par value of the stock.

Straddle.—A put and a call, a double privilege.

Twisting the Shorts.—Obliging Bears to cover at a loss.

Tractions.—City railroads, such as Metropolitan, B. R. T., Third Ave. R. R., Interborough, etc.

Under the Rule.—See page 37.

Unload.—To sell out.

Vanderbilts.—Railroads controlled by that family.

Wash Sales.—Fictitious sales, afterwards called off by the parties to them.

Watering Stock.—Increasing capitalization without proportional assets.

"Whipsawed."—Getting caught "coming and going." For instance, going short at 18 and covering at 19—then buying at 21 and selling at 20.

ORDERS.

There is the straight "market order" as follows:

Buy 100 Union Pacific. Signed, ... *Customer.*	or	Sell 100 Union Pacific. Signed, ... *Customer.*
Printed in black ink on white paper.		Printed in red ink on white paper.

Such an order is at once executed at the best market price.

There is also what is called a "limited order," where a price is fixed, such as follows:

Buy 100 Union Pacific 138. Signed, ... *Customer.*	or	Sell 100 Union Pacific 142. Signed, ... *Customer.*
Printed in black ink on white paper.		Printed in red ink on white paper.

In case the broker holding these orders had the floor, the buying order would be filled as soon as 100 shares of stock was offered at 138, the selling order filled when 142 is bid for 100 shares.

The broker making the first bid at a price has the floor at that price, up to the amount of stock for which he is bidding.

He has the privilege of buying the first stock which is offered at his bid price, unless this stock is offered in a block, "all or none," which exceeds the amount for which he is bidding.

It is sometimes hard for a customer to understand why, when 500 or 1,000 shares are printed on the tape at his limit, his stock is not bought; the reason is that some broker on the exchange has offered 500 or 1,000 shares

"all or none," which means that he has a block of stock for sale and will not consider a 100-share bid.

Where a customer wants to limit his loss to a certain amount, say, 3 points, he enters a "stop order." After having bought 100 Union Pacific at 140, he will enter a stop order as follows:

Sell 100 Union Pacific at 137 Stop.

Printed in red ink on white paper.

Or in case he has sold short 100 Union Pacific at 140, he will enter the following:

Buy 100 Union Pacific at 143 Stop.

Printed in black ink on white paper.

All *stop orders,* unless otherwise specified, are considered by the broker to be "G. T. C.," that is, "good till cancelled."

Orders may be put in good for any specified period of time.

All other orders are considered to be good for only one day (the day on which the order is given).

The rule among brokers relative to the execution of a stop order is as follows:

In the case of a selling stop, as soon as 100 shares of this certain stock sells or is offered by another broker at or below the stop price, the stop order immediately becomes a "market order," and the broker who has the stop order sells his stock at the best market price, irrespective of his stop price. This accounts for the fact that, except in the active stocks, a broker is often unable to execute a stop order at the stop price. The same holds true in stop orders to buy, except that this stop

becomes operative (a market order) when 100 shares sell or are bid for at or above the stop price.

Where a customer wants to stop a loss and yet have his stock sold at not less than the stop price he enters what is called a "stop and limit order" as follows:

> **Sell 100 Union Pacific at 137 Stop and Limit.**
> **Signed,**
>
> ______________________
> *Customer.*

Printed in red ink on white paper.

Just as in the foregoing case this order becomes operative as soon as 100 shares of the certain stock are sold or are offered at or below the stop price, except that the broker holding this order then has a straight limited order which he cannot sell for less than the limited price.

Stop and limit orders are sometimes put in as follows:

> **Sell 100 Union Pacific 137 Stop, Limit 136.**

Printed in red ink on white paper.

In this case when stock sells or is offered at 137 the broker has an order to sell at 136 or better.

* A customer may buy, and usually does buy, "regular," which means the stock will be cleared on the New York Stock Exchange Clearing House sheet the next day, or he may buy "at 3 days" (or at any number of days not exceeding 60), and he may buy "B. O." (buyer's option) or "S. O." (seller's option). "At three days" means the buyer has 3 days in which to pay for the stock. On the tape this would read "100 U. P. 140, 3." At the expiration of three days the stock thus bought auto-

* **Art. 23, Secs. 3, 4-5-6, 8-9. Rules of New York Stock Exchange.**

matically delivers itself through the New York Stock Exchange Clearing House.

He may also buy "Cash," which would read "100 Union Pacific 140 C.;" this means that the buyer is prepared to pay cash and will receive and pay for the stock on the day of purchase.

Any option for more than three days requires one day's notice by the buyer or seller to be availed of. "B. O." (buyer's option) means that the buyer may demand the stocks within the time specified, and "S. O." (seller's option) means the seller may deliver the stock to the buyer any time up to and including the number of days the seller's option runs.

PURCHASING FOR INVESTMENT.

Buying stocks for investment is like buying anything else. The buyer simply notifies the broker that he wishes to buy so many shares. He gives his broker his check or the cash, or agrees to pay him when the stock is delivered to him.

The same routine is observed as in case of a purchase on margin, described on the next page.

PURCHASE ON MARGIN.

Mr. Long tells the office manager of his broker that he wishes to buy or be "long" of 100 shares of Union Pacific.

At this time it is quoted at 140, making 100 shares worth 14,000 dollars. Under the custom of the business Mr. Long is required to put up ten points margin on each share, or $1,000. This "margin" is the deposit Mr. Long makes with his broker in part payment of his purchase. The margin may be in a check or cash. Good securities (stocks, bonds, debentures, etc.), for which there is ready market, are also freely accepted by the broker as margin.

Under the law of New York State, where your contract is to be made and performed, and consequently the law that will govern your purchase or sale, the brokers, Messrs. Buy & Hold, who do not own the stock themselves, but simply act for their customer, Mr. Long, lend Mr. Long the difference between the margin he is required to put up and the full purchase price of the stock, or in the illustration I am giving, $13,000. Messrs. Buy & Hold, Mr. Long's brokers, merely hold the stock as collateral or pledge to secure themselves for this loan of $13,000. The brokers in turn can borrow on this stock from their bankers, or can lend it out at interest as explained on page 57.

On this balance of 13,000 dollars due by Mr. Long, the brokers Buy & Hold charge Mr. Long interest. They do not charge him interest on the full purchase price of fourteen thousand, because Mr. Long has already put up his margin, or part payment, of one thousand dollars.

Where, instead of cash, securities are put up as

margin, the broker charges interest on the full cost of the stock purchased. When the margin is in stocks the broker can put them up with his bank as collateral for the funds with which he carries his customers' accounts, provided always that he is in position to return them upon demand. In New York Stock Exchange transactions, interest runs every day. Their stocks are cleared daily, as will be shortly explained, except Saturday. Friday's and Saturday's trades are cleared on the following Monday. Being in the eyes of the law pledgees, Buy & Hold can, in case of an unfavorable fluctuation in the market, demand enough more margin to protect themselves, or demand the balance they have loaned Mr. Long on the stock they bought for him, to wit, $13,000, with interest. If Mr. Long's margin is exhausted and he refuses to put up additional margin, or refuses to pay the balance due so as to take up and own his stock, Buy & Hold have the right after reasonable notice* of the time and place of sale, to sell the stock they hold of Mr. Long's as collateral for the difference between the margin already put up by Mr. Long and the purchase price of the stock, reimburse themselves for their loan to Mr. Long, and pay him the balance or credit his account with it.

The margin in the case supposed protects the broker until the ten (10) points have been exhausted, by a decline to 130, in the stock bought. Before this point is reached he has called for margin. The first call is usually made after a decline of five (5) points, reminds the customer

*What is reasonable notice of the time and place of sale of stock has never been determined by the courts. Each case stands on its own footing, the facts in each are different, and much depends upon the custom of the business generally, or upon the course of dealing between the customer and the broker.

that his margin is not sufficient, and requests a remittance of five (5) points additional. In case the customer does not respond and the stock continues to decline, a peremptory call is made on him to the effect that he at once deposit additional margin. The suggestion is sometimes made on the second call that a stop loss order at, say, 131, would be accepted by the broker. If he fails to deposit proper margin in response to these calls, the broker takes what measures he can to protect himself against loss. He, therefore, either enters a stop loss order at a price one or two points higher than the point at which the margin is exhausted, and notifies the customer to that effect, or gives notice that he will at a given time and place dispose of the customer's securities.

In the calling of margin very much depends on the class of stocks being carried, the state of the market, and the broker's knowledge of the ability of his customer to protect his trades.

The broker works on the principle that he is not called upon to run any risk of losing money on customers' trades, as he is merely an agent in buying stock on a customer's order, advancing, or using his credit to borrow the money necessary to pay the difference between the cost of the stock bought and the margin deposited.†

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*All "buy" papers and the backs of all "buy" books are black; all "sell" papers and the backs of "sell" books are red.

†The broker's exact legal relation to his customer I have already explained on page 18.

If Mr. Long has time when he gives his order, or unless he is well known at Buy & Hold's office, he fills in the following "Buy Order":

Buy
100 (shares of) U. P.
(at) 140 (or "at the market," or "at the opening").
.... (Customer's name.)

Printed in black ink on white paper.

The manager or clerk who receives the above "Buy" order hands it to the Order Clerk, who is in a telephone booth in the office of Buy & Hold, which is connected with the Stock Exchange floor by the firm's private wire.

This Order Clerk, who gives orders and receives reports of "executions" of orders placed, keeps the following form of "Order Sheet," in which he makes entry of the order.

(Left Side of Sheet.)

ORDER BOOK.

BUY.

Date Order Given.	Good Until.	Quantity.	Description.	Price.	Time.	Whose Acc'nt.	Broker.
Jany. 2		100	U. P.	140	R (regular)	Mr. Long	

(Right Side of Sheet.)

SELL.

Date Order Given.	Good Until.	Quantity.	Description.	Price.	Time.	Whose Acc'nt.	Broker.

The Order Clerk telephones the order to his private telephone on the Exchange floor.

The order having now reached the private telephone of Buy & Hold on the floor of the New York Stock Exchange, that firm's telephone operator or receiver there writes it out on the following "Buy Order" blank:

BUY
100 U. P. 140
BUY & HOLD.
Please Send Reports to
Telephone

Printed in black ink on white paper.

See page 53 for rest.

and immediately pushes a button which flashes out the Floor Broker's number on the big blackboard at the south end of the room where the Floor Broker's eyes are glued from ten in the morning until three in the afternoon, every day except Saturday, on which day the Exchange closes at 12 M.

When Buy & Hold's Floor Broker sees his number flash out he goes or sends one of the messengers on the Exchange floor (and there are about two hundred of them) to the telephone of his firm to receive the message awaiting him. The moment the Floor Broker gets the order he rushes to the post where the stock ordered is dealt in. There are sixteen of these posts, in four rows, across the Exchange floor. Arrived there, the Floor Broker listens to the bids and offers, and if the stock is not active he asks, "How do you quote U. P.?" (meaning what is bid for it and what is it offered at?) Some broker answers, "Seven-eighths to an eighth" (meaning at that particular time 139⅞ bid and offered at 140⅛). Some broker may say, "Any part of 500 at an eighth" (meaning he offers stock for sale at 140⅛, in lots of 100, 200, 300, 400 or 500).* Buy & Hold's Floor Broker then says, "40 for 100" (meaning, of course, 140 is his bid, which, by the way, is less than it has been offered him at). "Sold," says a broker. The buyers and sellers then immediately enter the following memorandum in their purchase and sales memorandum, or "trading books:"

† B 100 U. P. 140 (Name of Seller).	‡ S 100 U. P. 140 (Name of Buyer).

* Article 23, Section 5, of Rules of Stock Exchange.

† B above means Bought. ‡ S above means Sold.

One of these books is used only until about noon, or the middle of the session, and it is then sent to the broker's office, and he uses a second one during the afternoon, and it, too, is afterwards sent to the broker's office at the close of the market, to be copied into the Purchase and Sales Book, sample page of which is as follows:

(Left Side of Book.)

PURCHASE.

Broker.	Of Whom Bought.	No. of Shares	Description.	Price.	Time.	For Whose Account.

(Right Side of Book.)

SALES.

Broker.	To Whom Sold.	No. of Shares.	Description.	Price.	Time.	For Whose Account.

When an order has been executed on the floor of the Exchange the Floor Broker has it telephoned to his office, and the Order Clerk enters its execution on his Order Sheet. He then announces, "Mr. Long, we have

bought your U. P. at 40." Mr. Long is later handed the following confirmation:

BUY & HOLD.

MR. LONG, New York, Jan'y 2, 1908.

Dear Sir:

We have this day bought for your account and risk as per instructions.

Shares.	Description.	Price.	Name.
100	U. P.	140	(Of Seller)

Yours respectfully,

BUY & HOLD.

Per ....

From the purchase and sale book entries are made in two blotters, one called the "Clearing House Blotter," the other "Cash Blotter." In the *Clearing House Blotter* are entered and extended at their price, all 100 or multiples of 100 share trades made during the day in Clearing House stock (that is to say, those stocks which, on account of their activity the Clearing House has seen fit to admit to clearance.) All Clearing House stocks which the firm has borrowed and loaned during the day, together with Clearing House stock which has been returned or called during the day, are entered in this Clearing House Blotter.

Clearing House Blotter.

Receive.

Receive From.	Shares.	Stock.	Price or Rate.	Amount.	Com.	Int.	Total Amount.	For Account of

Deliver.

Deliver To.	Shares.	Stock.	Price or Rate.	Amount.	Com.	Int.	Total Amount.	For Account of

Tickets are then made out from the Clearing House Blotter on the "Buy" side as follows (same ticket used for borrowed stock):

No. ....   New York, ...190

CLEARING HOUSE OF THE NEW YORK STOCK EXCHANGE.

Receive from..

......00 Shares................@......$......

for account of the undersigned.

BUY & HOLD.

Printed in black ink on white paper.

These are kept in the office to be exchanged with the broker who sold the stock described on this ticket.

"Sales" tickets are made out as follows:

No. ...... New York, ... 190

CLEARING HOUSE OF THE NEW YORK STOCK EXCHANGE.

Deliver to.......................................

......00 Shares................@......$......

for account of the undersigned.

BUY & HOLD.

New York, ...190

Sold to...

By BUY & HOLD

......00 Shares of..............@......$......

Printed in black ink on white paper.

These are delivered by messenger of the selling brokers to the buyer of stock described, in exchange for his "Buy" tickets.

To the sales ticket are attached State revenue tax stamps to the amount of $2.00 for every 100 shares of stock sold; the lower half of the sales ticket is detached by the buyer and retained by him for transfer purposes, because without a ticket properly stamped and properly describing the stock it is impossible to make transfer.

The exchange of the above tickets is made at the ticket clerk's window of the buying broker's office before 4.15 P. M. The Clearing House sheet is then made up from the exchanged tickets. After all bought and borrowed stocks, and sold and loaned stocks, as well as all returned loan stocks have been entered the amount of each stock on each side of the sheet is totaled, the balance either way is entered on the opposite side. The same operation is performed on the Clearing House Blotter. For instance a firm will have on the "deliver" or sales side a total of 1,200 Union Pacific and 600 Northern Pacific, and on the "receive" or buy side 1,000 Union Pacific and 900 Northern Pacific, showing that they have sold a balance of 200 Union Pacific and bought a balance of 300 Northern Pacific. In order to balance stocks, the 200 Union Pacific is entered on the "buy" side as *"To go* 200 Union Pacific," the 300 Northern Pacific is entered on the sale side as *"To come* 300 Northern Pacific." These balances are then extended at the "Clearing House price." The Clearing House price comes out on the tape after 3 o'clock (the closing hour) and is the full figure nearest the last fraction at which there has been a sale.

The sheet is then balanced as to extensions of money. Balance of stocks and money must agree with the Clearing House Blotter. Then if the total of the "sales" side exceeds the total of the "buy" side the broker fills out to the amount of his credit balance, the following draft on the Clearing House which, when it is approved by the Clearing House manager, is returned to the broker and deposited by him in his bank with other checks.

SAMPLE OF CLEARING HOUSE DRAFT.

Clearing House	No. ....
of the	New York, ...190
N. Y. Stock Exchange.	MANHATTAN COMPANY
——	Pay to the order of the undersigned...............Dollars as advised this day by the Clearing House of the N. Y. Stock Exchange.
Approved.	
(Signature of Clearing House Mgr.)	$................
.... Manager.	.... (Broker signs here.)

Should the total of the "Buy" side exceed the total of the "sales" side the broker pays his debit balance by check. Except in a very active market, one in which purchases and sales would be made a wide price differences, the amount of his balance either way is comparatively small. The sheet, together with all tickets entered thereon, is sent to the Clearing House.

CLEARING-HOUSE OF THE NEW YORK STOCK EXCHANGE.
Exd......
Ckd...... No......
New York, Jany 20, 1908. Office Address, 2 Wall.
Clearing Sheet of Buy & Hold.

(Left side of sheet.)

Received From.	Shares.	Stock.	Price.	Amount.
Robinson	500	U.Pac.	138¾	69,375
Jones	500	"	140¼	70,125
Smith	400	N. P.	151¾	60,700
Jones	500	"	152	76,000
Balance to go (at C. H. price)	200	U P.	139	27,800
		Draft.		750
	2,100			304,750

(Right side of sheet.)

Deliver to.	Shares.	Stock.	Price.	Amount.
Brown	500	U. P.	139¾	69,875
Jones	200	"	140	28,000
Smith	500	"	140¼	70,125
Robinson	300	N. P.	152	45,600
Jones	100	"	151½	15,150
Brown	200	"	152	30,400
Balance to come (at C. H. price)	300	N. P.	152	45,600
	2,100			304,750

Enter on this sheet only those transactions for which tickets have been exchanged.
The tickets must agree or both parties will be fined.

In the Cash Blotter (under date of the following delivery day) is entered from the Purchase and Sale Book all other trades, ex-Clearing House stocks, fractional amounts of stocks, and all bonds. Sample of the Cash

To Receive.................................

Of Whom Bought	No. Shares	Description	Price	Numbers	Amount	Interest	Com.	Total Amt.	For Whose Account

(Left side of book.)

To Deliver.................................

To Whom Sold	No. of Shares	Description	Price	Numbers	Amount	Interest	Com.	Total Amt.	For Whose Account

(Right side.)

In all these transactions which belong to the Cash Blotter, comparisons have been exchanged as follows:

Original.

BUY & HOLD.

Comparison.

New York, ..., 190

Bought of.................................
Account of................................
Deliver to.................................

Duplicate.

BUY & HOLD.

Comparison.

New York, ..., 190

Bought of.................................
Account of................................
Deliver to.................................

Compared by ....

Printed in black ink on white paper.

Dotted lines indicate folded in middle so carbon paper can be placed between to make copies.

Original.

BUY & HOLD.

Comparison.

New York, ..., 190

Sold to...
Account of......................................
Receive from....................................

Duplicate.

Comparison.

New York, ..., 190

Sold to...
Account of......................................
Receive from....................................

Compared by ....

Printed in red ink on white paper.

The next morning before ten the broker receives from the Clearing House the following slips:

CLEARING HOUSE OF THE NEW YORK STOCK EXCHANGE.

The Undersigned Will RECEIVE the Following BALANCE of Stock at the Delivery Price.

Shares.	Stock.	Receive From	
300	Nor. Pac.	Robinson.	
	152	....	....
		....	....
		....	....

Date

11/26/07.   Name, BUY & HOLD.   No. ....

Printed in black ink on yellow paper.

CLEARING HOUSE OF THE NEW YORK STOCK EXCHANGE.

The Undersigned Will DELIVER the Following BALANCE of Stock at the Delivery Price.

Shares.	Stock.	Deliver to	
200	U. Pac.	Smith & Co.	
	139	....	....
		....	....
		....	....

Date

............Name, BUY & HOLD.   No. ...

One is for the purpose of telling him from whom he is to receive his balance "To come" of the Clearing House sheet of the previous day, the other to whom he is to deliver the balance "To go." Entries from the slips are then made in the cash blotter and stocks called for by the slips are received or delivered during the day as cash items.

With the exception of bonds (no tax is levied on the sale of bonds) and Clearing House balances of stock (sales tax having been paid), all cash deliveries which represent sales must be accompanied by a properly revenue stamped bill of sale.

One Cash Blotter and one Clearing House Blotter is used on Mondays, Wednesdays and Fridays, and another one of each is used on Tuesdays, Thursdays and Saturdays. The Blotter, it will be observed, is about the same as the Purchase and Sales Book, except that it has extensions showing the amount paid, or received, for each separate item.

Before 2.15 at the cashier's window of Buy & Hold the delivery of this stock is made by messenger of Sell & Deliver.

Every day in the six, except Saturday, at 2.14 P. M., tickers throughout the country print on the tape "Hammond's Time" (Hammond being the name of the old official clockmaker of the Exchange). Then the ticker beginning at 15 seconds before 2.15, gives fifteen distinct beats, one second apart, on the stroke of the last of which it is then 2.15, or "settlement time" for Stock Exchange trades for the previous day. This announcement of Hammond's time on the tape saves disputes about the exact time.

Stock or bonds that have not been delivered by 2.15 must be carried over by the seller, the party who failed to deliver, and delivery made the following day, except that Friday's "failure" (to deliver) goes through on Monday. As the customer's account is credited the amount of sale under date of the day on which delivery *should* be made, the broker makes every effort to get his delivery in before 2.15, otherwise he is compelled to carry over "failed stock," and thereby loses the interest that has been credited to his customer.

At the end of the day's work, from the Cash Blotter and the Clearing House Blotter the Bookkeeper makes up his entries in the Ledger. When cash margin is put up the Cashier puts the margin in bank and credits it in the Cash Blotter. The Cash Blotter is balanced with the cash, and the Bookkeeper posts from the Blotter to the different accounts. From the Blotter the Bookkeeper credits Mr. Long's account with the margin put up by him, and charges him with the full price of the stock purchased, also with the broker's commissions (usually, as already stated, one-eighth of one per cent. of the par value of the stock, the exception being stocks dealt in on the "Curb" and Mining Stocks whose par value is less than one hundred dollars a share). The Commissions on curb stocks vary. If the order is through a Stock Exchange House they in many instances charge the same as for "Board" (Stock Exchange) stocks.

Buy & Hold now have the stock to deliver to their customer, or to use as collateral, or to lend to a broker who has "sold short" for his customer. Mr. Long now has his stock (or his brokers have it for him) and his account

stands debited with it and credited with the margin deposited, as follows:

BUY & HOLD.

Debit. *Credit.*

Address.

Name. Mr. Long.

Jan.	3	100	U. Pac.	140	14,012.50	Jan.	2		Cash Deposit.		1.000

Money is borrowed by brokers to "carry" the stocks of their customers, either from the broker's banker or in the "Money Crowd" on the Exchange floor. If it is a call loan the Bank can call it in, or the Broker can pay it at will, that is to say, the lender must notify the borrower or call the loan, and the borrower must return it, generally adjusting it before one o'clock of the same day. The form of the notification by the lender is as follows:

FIRST NATIONAL BANK,

New York.

We will require payment to-day of your $100,000 loan.

Dated ...., 190..

If the loan is not paid, the stock is sold out or bought in "under the rule" (Rule 28, Section 10).*

In stock loans between brokers both sides can notify. The borrower "notifies" and the lender "calls."†

CALL OR RETURN NOTICE.

New York, ..., 190

M................

will.........................

....

....

Address ....

When the Bank notifies the Broker that it wishes its money, the Broker's Clerk takes a certified check to the Bank for the loan and interest, and receives from the banker to whom he has delivered the check the securities which he has put up with the Banker as collateral. Collaterals are kept by the Bank in loan envelopes which have printed across their face the following:

* This, of course applies to transactions between brokers only.

† Rules N. Y. S. E., Art. XXVI, Sec. 4.

DEMAND LOAN.

BUY & HOLD.

FROM

....

Amount, ...

Date, ...

Rate of Interest (as agreed when made).

COLLATERAL.

When it is desired to substitute one collateral for another the following form is used:

Loan Substitution.

BUY & HOLD,

96 Broadway.

(Date) New York, ...

Loan of (Amount).

I wish to withdraw the following Securities, viz.:

....

and substitute in place thereof,

....

To (Banker)

With this, the new collateral is sent to the banker, who hands the messenger the old collateral, and puts the new in its place.

Every bank requires borrowing brokers to execute the following perpetual loan agreement:

"WHEREAS, The undersigned expect from time to time to borrow money from the ...., and to pledge with the Bank property of various kinds, as collateral security for the payment of such loan to be hereafter made by the Bank, the undersigned agree with the Bank that all property thus pledged with it may be held by it as security for all liabilities and obligations of every kind which the undersigned may at any time here-

after incur to the Bank, whether direct or contingent, and also that the Bank shall have a lien for all such liabilities and obligations upon any balance of deposit account which the undersigned may keep with the Bank; and further, the undersigned agree to deliver to the Bank additional security, to its satisfaction, should the market value of the said securities, as a whole, suffer any decline.

IT IS FURTHER AGREED, That upon the non-payment of any of the liabilities or obligations above mentioned, when they respectively become payable, or upon the failure of the undersigned forthwith, with or without notice, to furnish additional securities, in case of decline, satisfactory to the Bank as aforesaid, or in case of the insolvency or failure in business of the undersigned, then and in any such case all obligations or other liabilities of the undersigned, and each of them, shall forthwith become due and payable, without demand or notice, and full power and authority are hereby given to the Bank to sell, assign, and deliver the whole of the said securities, or any part thereof, or any substitutes therefor, or any additions thereto, or any other securities or property given unto or left in the possession of the Bank by the undersigned, for safe keeping or otherwise, at any broker's board or at public or private sale, at the option of the Bank, without either demand, advertisement or notice of any kind, which are hereby expressly waived. At any such sale, the Bank, or its assigns, may itself purchase the whole or any part of the property sold, free from any right of redemption on the part of the undersigned, which is hereby waived and released. In case of sale for any cause, after deducting all costs or expenses of every kind for collection, sale or delivery, the Bank may apply the

residue of the proceeds of the sale or sales so made, to pay one or more or all of the said liabilities to the Bank, as it shall deem proper, whether then due or not due, making proper rebate for interest on liabilities not then due, and returning the overplus, if any, to the undersigned, who jointly and severally agree to be and remain liable to the Bank, or its assigns, for deficiency arising upon such sale or sales. The undersigned do hereby authorize and empower the Bank, at its option, at any time to appropriate and apply to the payment and extinguishment of any obligations or liabilities, due to the bank from them or any of them, whether now existing or hereafter contracted, any and all moneys now or hereafter in the hands of the Bank, on deposit or otherwise, to the credit of or belonging to the undersigned, or any of them, whether the said obligations or liabilities are then due or not due.

This instrument and all rights thereunder may be sold, assigned and transferred by the Bank at such time and upon such terms as it may deem advisable; and the assignee thereof shall succeed to all the rights of the Bank hereunder.

....

New York, ...190..

In consideration of one dollar paid to the undersigned, and of the making of the loans referred to in the within agreement, at the request of the undersigned, the undersigned hereby jointly and severally guarantee to the ...., its successors and assigns, the punctual payment, at maturity, of the loans so made, and hereby assent to all the terms and conditions of the said agreement, and consent that the securities for any

such loan may be exchanged or surrendered from time to time, or the time payment of the said loans or any of them extended, without notice to or further assent from the undersigned, who will remain bound upon this guarantee, notwithstanding such changes, surrender or extension."

....

The following is the power which sometimes accompanies stocks:

Irrevocable Stock Power.

KNOW ALL MEN BY THESE PRESENTS,

THAT ....
for value received, have bargained, sold, assigned and transferred, and by these presents do bargain, sell, assign and transfer unto..........................
....
Shares of the............Stock of the................
....
standing in........name on the books of.............
....
do hereby constitute and appoint.....................
....
......true and lawful Attorney, irrevocable for........ and in........name and stead, but to........use, to sell, assign, transfer, and set over, all or any part of the said stock, and for that purpose to make and execute all necessary acts of assignment and transfer, and one or more persons to substitute with like full power, hereby ratifying and confirming all that........said Attorney, or......

substitute or substitutes shall lawfully do by virtue thereof.

IN WITNESS WHEREOF,..............have hereunto set..............hand and seal the.................. day of........................190

Sealed and delivered in the presence of

[L. S.]

A SALE.

If his stock has gone up or down and Mr. Long wishes to sell, he goes to the Order Clerk at the Broker's office and orders the sale, handing him the following form:

This form printed on white paper in red ink.

Sell

100 U. P. Market

Signed (Mr. Long).

The Order Clerk sends Mr. Long's order over the telephone to the Floor Broker just as an order to buy was sent in, entering it on the "Sell" side of his order sheet.*

The Floor Broker receives it in the same way. He goes to the post where the stock is traded in and watches the trading. A buying broker says, "I will give ⅛," the selling broker says, "I will sell 100 at ¼," and the buying broker says, "Take it." The buying and selling brokers then enter the following memorandum in their respective "trading books":

Buying Broker (Buyshares & Co.).	Selling Broker (Buy & Hold).
B †	S ‡
100 U. P. 139¼.	100 U. P. 139¼.
BUY & HOLD, Name of Seller.	BUYSHARES & CO., Name of Buyer.

* See order sheet, page 22.

† "B"—Bought. ‡ "S"—Sold.

The trade is then reported back through the telephone to the Order Clerk in the Broker's office and he hands Mr. Long the following slip, saying, "We have sold your U. P. at 139¼." The customer is frequently telephoned the execution of his order, and if he is not at the office, or is not telephoned, the following notice or "confirmation" is mailed him:

....

BUY & HOLD.

New York, Jan. 4th, 1908.

Mr. Long:

Dear Sir:

We have this day *sold* for your account and risk as per instructions.

Shares.	Description.	Price.	Name.
100	U. P.	139¼	Buyshares & Co.

Yours respectfully,

BUY & HOLD.

Per ....

From the Board reports (Trading Books) a clerk copies the transaction into the Purchase and Sales Book. From the "P. & S." Book it is copied into the Blotter. From the Blotter it is entered into the Ledger. There the bookkeeper credits Mr. Long with the price received

for the stock, less commission of 1/8 of 1 per cent. for selling, and a two dollar State tax stamp on each 100 shares sold. Mr. Long's ledger account with Buy & Hold now appears as follows:

BUY & HOLD.

Dr. Cr.

Address. Name, Mr. Long.

Jan'y	3	100	U. P.	140	14,012 50	Jan'y Jan'y	2 5	100	Check U. P.	139¼	1,000 13,910.50

If this 100 shares is the sole business Buy & Hold have done during the day the Entry Clerk has made the following entry in the "Deliver to" column of the Clearing House sheet:

Exd...... No. ....
Ckd......

CLEARING HOUSE OF THE NEW YORK STOCK EXCHANGE.

New York, Jan'y 5th, 1908. Office Address,.......

Clearing Sheet of Buy & Hold.

Receive From	Shares	Stock	Price	Amount
Balance to Go.	100	U. Pac.	139	$13,900
		Draft a	ttached	25
				$13,925

(Left hand side of sheet.)

Deliver To	Shares.	Stock.	Price.	Amount.
Buyshares & Co.	100	U. P.	139¼	$13,925
				$13,925

(Right hand side of sheet.)

The original ticket of Buyshares & Co. is attached by Buy & Hold to their Clearing House sheet to verify the transaction.

After 7 P. M., before which time all Clearing House sheets must be in, the Stock Exchange Clearing House makes up its results, and the next day furnishes to Buy &

Hold the name of the man who is to receive the stock sold Buyshares & Co. This firm may not be Buyshares & Co.; that will depend upon the number of shares of the same stock bought and sold by them cleared through the Clearing House that day. In the particular case I am illustrating the Clearing House does find that they are to be delivered to Buyshares & Co. The Clearing House serves Buyshares & Co. with the following "yellow" receive slips, on the *next* day before ten o'clock:

CLEARING HOUSE OF THE NEW YORK STOCK EXCHANGE.

The Undersigned Will RECEIVE the Following BALANCE of Stock at the Delivery Price.

Shares.	Stock.	Receive From	
100	U. P. 139	Buy & Hold.	

Date
1/5/08 Name, BUYSHARES & Co. No. 298.

If it happens that some one else is to receive the stock because Buyshares & Co.'s Clearing House sheet pairs off this 100 shares, or if Buyshares & Co. have sold more of this stock that they have bought, the Clearing House serves this other firm with these receive slips at their

registered office.* Messrs. Buy & Hold are in the same way served with the following "Deliver" slip:

CLEARING HOUSE OF THE NEW YORK STOCK EXCHANGE.

The Undersigned Will DELIVER the Following BALANCE of Stock at the Delivery Price.

Shares.	Stock.	Deliver To	
100	U. P.	Buyshares & Co.	
	139		

Date

1/5/08 Name, BUY & HOLD. No. 412

Buy & Hold before 2.15 make delivery to Buyshares & Co. of the 100 shares which they have been carrying and have now sold for Mr. Long, and receive a check in payment at the Clearing House price of 139.

* Every member of the Exchange furnishes it with the street and number of his office, which must be in the vicinity of the Exchange. This is registered with the Secretary.

SELLING WHAT IS NOT OWNED, OR, "SELLING SHORT."

If you have stock to sell it is called simply selling. In such case you put up no margin, but turn over or agree to turn over the stock to the broker when the sale is made so that he can deliver it to the buyer. "SELLING SHORT" is a different proposition. Let us call the man who wishes to sell short, Mr. Short. He wishes to sell a stock he does not own, because he believes that he can borrow it to make the delivery to his purchaser, and afterwards buy it in at a lower price to return to the broker he borrowed from. He therefore orders his brokers (whom we shall call Sellshort & Co.) to sell 100 shares of U. P. (when it is at 135), believing that he can buy it back at less, after paying his commission of one-eighth of one per cent. each way, etc. His brokers, Sellshort & Co., sell it for him in the same manner Mr. Long sold his 100 shares. Mr. Short goes to the Order Clerk at the telephone and gives the following order:

Sell— 100 U. P. at 135. Signed......................(Customer.)	This form is on white paper in red ink.

The Order Clerk telephones it to the floor of the Exchange after entering it as in case of a regular sale, in his Order Sheet. The firm's Floor Broker receives the message which has come over his private 'phone, and

See page 13 for next

which is handed him on a slip just like the last one referred to.

The Floor Member then goes to the post and sells the stock and enters it in his "trading book" just as in case of an ordinary sale. From this trading book it is copied into the Purchase & Sales Book at the Broker's office, then into the Blotter, and there is the same exchange of tickets (described on page 27) as in case of a regular sale.

Messrs. Sellshort & Co. having sold stock which they do not have to deliver, it becomes necessary to get it to deliver. The Floor Broker of Sellshort & Co. goes to the "Loan Crowd" and says "100 U. P.?" The broker who has this particular stock to lend, or who is willing to lend it at the best terms, says, "five per cent.," and the borrowing broker says, "take it."

Lender and borrower report the loan to their respective offices.

We will supose that on this particular day the last sale of Union Pacific was 136¼, which would make the Clearing House price 136. We will call the broker who lends the stock, Lender & Co.

Sellshort & Co. make the following entry on their Clearing House blotter for "Loan account:"

Clearing House Blotter of Sellshort & Co.

Date, Feb. 1st, 1908.

Receive

Receive From	Shares.	Stock.	Price or Rate.	Amount.	Commission	Total Amount.	For Account of.
Lender & Co.	100	U. Pac.	5 per ct.	13600			Stock Loan Ac't.

Tickets are made up from the Clearing House Blotter, the amount of stock being extended in the Clearing House Blotter at the Clearing House price, and the lender delivers his ticket as follows:

> No. ...... New York, Feb. 1st, 1908.
>
> CLEARING HOUSE OF THE NEW YORK STOCK EXCHANGE.
>
> Deliver to Sellshort & Co.,
> 100 Shares U. Pac. @ 136............$13,600
> for account of the undersigned.
>
> LENDER & CO.

in exchange for the following ticket of the borrower:

> No. ...... New York, Feb'y 1st, 1908.
>
> CLEARING HOUSE OF THE NEW YORK STOCK EXCHANGE.
>
> Receive from Lender & Co.,
> 100 Shares U. P. @ 136..............$13,600
> for account of the undersigned.
>
> SELLSHORT & CO.

Sellshort & Co. by this time have exchanged tickets on Mr. Short's sale, with the broker who bought, who happened to be Buy & Hold.

From these exchanged tickets the Clearing House sheet of Sellshort & Co. is made up as follows:

Exd...... No. 333
Ckd......

CLEARING HOUSE OF THE NEW YORK STOCK EXCHANGE.

New York, Feb. 1, 1908. Office Address, 76 B'way.

Clearing Sheet of Sellshort & Co.

Receive From.	Shares.	Stock.	Price.	Amount.
Lender & Co.	100	U. Pac.	136	13,600
				13,600

(Left hand side.)

Deliver To.	Shares.	Stock.	Price.	Amount.
Buy & Hold.	100	U. P.	135	13,500
			Check,	100
				13,600

(Right hand side.)

The stock borrowed appears on the "receive" side at the Clearing House price, Mr. Short's sale appears on the "deliver" side at the sales price. In this case, as there is a debit balance of money, Sellshort & Co. draw their check to the order of the Bank of Manhattan, the Clearing House Bank, for the amount of this balance and

deliver at the Clearing House the Clearing House sheet, tickets and check.

From the Clearing House Blotter entries are made of stocks loaned or borrowed, in the Stock Loan Book as follows:

Borrowed. SELLSHORT & Co.

Date.		Of Whom Borrowed.	No. of Shares.	Description.	Rate.	Amount		Price.	When Paid.	Rate Changes.
Feb.	1	Lender & Co.	100	U. Pac.	5	13	600	136		

(This is left side of book.)

Loaned. SELLSHORT & Co.

Date.		To Whom Loaned.	No. of Shares.	Description.	Rate.	Amount.		Price.	When Paid.	Rate Changes.

(This is right side of book.)

This book contains a record of the amount of money the lender has received against the stock loan, the rate of interest he has agreed to pay for the money, and all rate changes, which may be made from time to time.

These rates of interest vary, depending upon the then current rates for call money, and the borrowing demand for the stock.

The lender of the stock has a right to demand the return of the stock and the lender of the money has the right to call it in. Sometimes stocks lend at a premium.* In case a premium has to be paid for the use of stock to make a delivery under a short sale, the customer pays this. In this event Sellshort & Company would have to pay this bonus first, receiving no interest on the amount of money they put up or lend the lender of the stock. When the number of borrowers balances the number of lenders the stock will lend "flat," that is to say, without interest or without a premium. The lending broker by lending the stock out avoids keeping it as an unproductive asset by getting the loan of the amount of money put up by the borrower of the stock to secure it, at usually a low rate of interest. The Bank will not lend him this full market value as the borrower of the stock does, and would charge him a much higher rate of interest.

Stock loans are usually "Put to the market," that is, in case of a fluctuation in the price of the stock loaned, in favor of either the borrower or the lender, the one who is favored by the change in the price can call upon the other to make good the difference.

Sellshort & Co. have borrowed 100 Union Pacific from Lender & Co., and have paid them $13,600 for it. On an

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* Art. 32, Sec. 6. Rules N. Y. Stock Exchange.

advance in the price of this stock Lender & Co. could call on Sellshort & Co. for the difference between the market price and the price at which the stock was loaned. On a decline, Sellshort & Co. could call on Lender & Co. for the difference.

When stock is put to the market the method followed is to pay off the old loan with accrued interest and make a new loan at the new price as follows:

		New York, Feb. 7th, 1908.
Messrs. Sellshort & Co.		
By LENDER & Co.		
New Loan.		
100 U. Pac. 5% Market.........		$13,800.
Return		
100 U. Pac.............$13,600.		
Int. from Feb. 1st, 6 days, @ 5%	11.33	13,611.33
Difference check due...		$188.67

The old loan is then marked off the loan book, and, under date of the "Mark," an entry of the new loan is made.

In the foregoing illustrations of short selling it has been supposed that Sellshort & Co. have been compelled to borrow stock to make delivery.

If at the time when Mr. Short sold his 100 Union Pacific at 135, Messrs. Sellshort & Co. had been carrying for some other customer, or had owned themselves 100

shares of Union Pacific they would not have borrowed the stock.

Sellshort & Co. would make entry on their sheet of the sale, balance the sheet by entering their balance of stock to go on the "Receive" side at the Clearing House price, and make delivery next day of the stock which they were carrying, to some broker designated by the Clearing House, who, on his sheet the night before, had a balance "To come," Sellshort & Co. receiving check at the Clearing House price.

In the case of a short sale of an Ex-Clearing House stock, the entry in the Purchase and Sales Book is made in the usual way, from there to the Ex-Clearing House Blotter, the stock is borrowed in the loan crowd, delivery is made at the Cashier's window at the borrower's office, the borrower pays for the stock at its market value, and the borrower then makes the delivery on his customer's sale, both deliveries taking place before 2.15 P. M.

Brokers Sellshort & Co. retain interest on the short transaction because during the interval covered by it they may have to borrow the stock half a dozen times or more.

In the case supposed of a short sale of 100 U.P. at 135, interest is received by the borrower of the stock at the current or specially agreed rate from the lender of the stock, who, it will be remembered, is the borrower of the money. The borrower of the stock puts up his cash as collateral for the stock he borrows. If the lender of the stock wants it back, the same number of shares must be delivered to him either by borrowing it from somebody else in the same way or by buying stock to return the lender of the stock in its place. This final buying and the delivery of the stock so bought to the lender is called "covering."

On February 7th Sellshort & Co. decide to return the lender, Lender & Co., or Lender & Co. demand the return of, the 100 shares. Sellshort & Co. therefore go to Brown and borrow 100 shares. The market in the meantime declines and the Clearing House settling price is 135. The stock borrowed from Lender & Co. must be returned to him at the price they loaned at, 138. The Clearing House Sheet of Sellshort & Co. will show a credit balance of $301.92, or the difference for 100 shares between the price of 138 and 135, plus interest paid by Lender & Co. on $13,800. The following entries therefore appear under date of February 8th on the Clearing House sheet:

CLEARING HOUSE OF THE NEW YORK STOCK EXCHANGE.

Exd......
Ckd...... No. ......

New York, 2/8/1908. Office Address, ...

Clearing Sheet of Sellshort & Co.

Receive From	Shares	Stock	Price	Amount
Brown	100	U. P.	135	13,500
To Bal. "Draft"				301.92
				13,801.92

(Left side of sheet.)

Deliver To	Shares	Stock	Price	Amount
Lender & Co.	100	U. P.		13,801.92
				13,801.92

(Right side of sheet.)

Enter on this sheet only those transactions for which tickets have been exchanged. The tickets must agree or both parties will be fined.

The stock has now declined and Mr. Short instructs Messrs. Sellshort & Co. to close the trade out, or "cover," which, as already explained, is done by buying the stock and returning it to the man from whom Mr. Short, through his brokers, Messrs. Sellshort & Company, has

borrowed it. So he tells Sellshort & Company "Buy" or "cover" for my account 100 U. P. at 133. Having complied with Mr. Short's instructions, Sellshort & Co. notify the broker from whom they borrowed the stock which they used to make their delivery, that they will return the stock on the next day, using the following form:

> New York, Feb. 10, '08.
>
> To Brown:
>
> We will return
>
> to-day 100
>
> Union Pacific.
>
> Broker, SELLSHORT & Co.

On February 9th Sellshort & Company, upon order the Mr. Short, close the contract, or "cover," by buying from Robinson the 100 shares which must be delivered to Brown, from whom they were borrowed, and this transaction is shown on the Clearing House sheet as follows:

Clearing House of the New York Stock Exchange.

Exd...... No. ......
Ckd......

New York, Feb. 10, 1908. Office Address, No. and Street.

Clearing Sheet of Sellshort & Co.

Receive From	Shares	Stock	Price	Amount
Robinson	100	U. P.	133	13,300
Draft				203.75
				13,503.75

(Left side of sheet.)

Deliver To	Shares	Stock	Price	Amount
Brown	100	U. P.		13,503.75
				13,503.75

Enter on this sheet only those transactions for which tickets have been exchanged
The tickets must agree or both parties will be fined.

(Right side of sheet.)

Mr. Short has made a gross profit of 2 points, from 135, the sales price, to 133, the purchase price, which, after paying ⅛ per cent. commission for the purchase and ⅛ for the sale, or $25, and a tax on the sale of $2, gives him a net profit of $173.

The closed trade on Mr. Short's Ledger account stands as follows:

SELLSHORT & Co.

Address. Name, Mr. Short.

Debit. Credit.

Feb.	10	100	U. Pac.	133	13,312.50	Feb.	1	100	U. Pac	135	13,485.50

When the short sale is covered, the customer is entitled to interest on the amount of his credit until the date that the account is rendered.

We will now see how through these various transactions Messrs. Sellshort & Co. have received the money with which Mr. Short's account has been credited.

The Clearing House sheet February 1st shows that Sellshort & Co. paid the Clearing House $100; on February 7th they paid to Lender & Co. $188.67, when Lender & Co. called on them to put the stock to the market. On sheet of February 8th, showing the return of the stock to Lender & Co., and the reborrowing from Brown at the Clearing House price, Sellshort & Co. had a credit of $301.92, and on the final sheet of February 10th, a credit of $203.75. Sellshort & Co. have thus received $505.67 and have paid $288.67, or a balance in their favor of $217.00; of this amount Mr. Short's account has been credited $173, Sellshort & Co.'s commission account credited $25, tax account $2, interest account credited $17.00.

INTEREST.

The Broker charges a fraction of one per cent., over the average rate of interest he pays, on the full debt due from his customer, and allows his customer the same rate on the cash margin deposited.

A broker who charges his customers' account less than the average rate of interest, violates the rules of the Exchange; see page 77 of the Constitution of the Exchange.

The Broker may secure money by lending stock to some Broker who has "sold short" for his customer and needs the stock (lending the lender of the stock its market value in cash) to make the delivery required of his customer, as was explained in the chapter on Short Sales, page 43. On such loans the lender of the money gets interest at call loan rates, or as otherwise agreed. A "flat" loan pays no interest, and is of no advantage to the lender of the money except that he gets the use of the stock. The advantage in a stock loan to the lender of the stock is that he can thus borrow to the full market value of the stock, while the Banks will only lend him about eighty per cent. on ordinary stocks, or even sixty per cent., of the value of the so-called industrials.

"Shorts" sometimes pay a premium for the use of stocks, in addition to letting the lender of the stock have the use of the money without interest. The premium, of course, varies with the supply and demand on the stock and loan market. A customer who has long stock that his broker can lend at a premium is credited with the amount of the premium.

Customers selling short can contract with their brokers

to receive certain interest their brokers get from brokers from whom they borrow to make deliveries under short sales.

DIVIDENDS.

The date of the closing and opening of stock transfer books, also the date on which dividends will be paid, is announced when dividend is declared.

Stocks sell ex-dividend the day on which the books close.

Holders of stock as of the date of closing of the transfer books are entitled to the dividend.

Mr. Long, who has bought 100 Union Pacific on margin, is just as much a holder of this stock (except that he owes his broker the money, over his margin, advanced by them for its purchase) as is an investor who has paid for his stock outright; and will receive the dividend when paid.

The investor will receive a check from the Company for the amount of the dividend; the margin trader's broker will collect the dividend, and his account with the broker will be credited the full amount.

Before books are closed for dividend purposes stocks should be transferred. This deprives the broker of their use for 24 hours, the time required to make the transfer by the transfer office. The broker who fails to transfer stocks calls upon the broker in whose name the stocks stand for a due bill for the dividends, which due bill is in the following form:

$...... New York,.................190

Due...
or order, the dividend declared by the..................
due...............190.. on..................Shares
of their................Stock, payable when collected
of the Company.

Charge

....

A collection charge of one per cent. by the party issuing the due bill is charged to the collection account. If when you are short of a stock the company pays for instance, a three per cent. dividend and the transfer books close for the dividend while your commitment is open, your broker charges your account with 300 dollars on each one hundred shares, but as the stock opens ex-dividend it is worth only its market value again, which may or may be equivalent to its closing price prior to the payment of dividend.

When a broker has an open order to buy or sell a stock that is about to sell ex-dividend, he asks his customer whether he shall reduce the order, by the amount of the dividend, from the day the stock sells "ex." If the broker cannot reach his customer the broker reduces the order and notifies the customer in writing to that effect.